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J. P. Douglas

STATE BOARD OF ACCOUNTS
INDIANAPOLIS, INDIANA

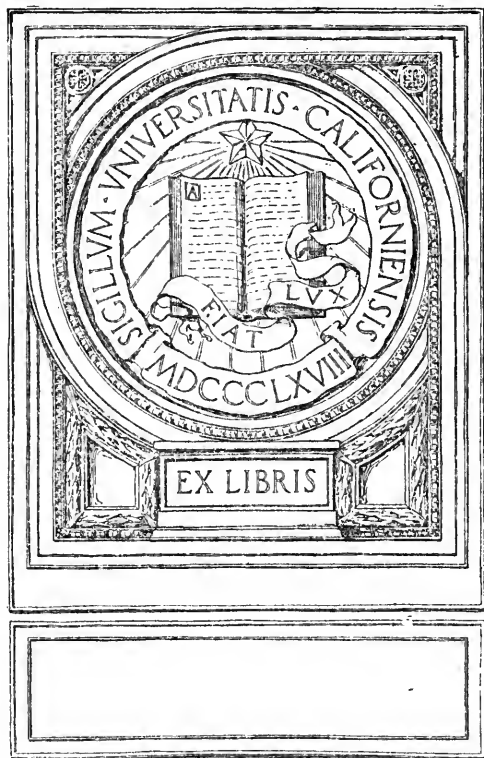
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STATE BOARD OF ACCOUNTS

Indiana DEPARTMENT OF INSPECTION
" AND SUPERVISION OF
PUBLIC OFFICES.

Special Report of
GILBERT H. HENDREN,
STATE EXAMINER.

For the period from
July 1, 1914, to June 30, 1916.

TO THE GOVERNOR.

GILBERT H. HENDREN, *State Examiner.*
THOS. H. KUHN, *Deputy Examiner.*
BERT WINTERS, *Deputy Examiner.*
GEORGE M. CRANE, *Law Clerk.*

1916

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STATE BOARD OF ACCOUNTS

INDIANA

MEMBERS OF THE BOARD

HON. SAMUEL M. RALSTON
Governor

HON. DALE J. CRITTENBERGER
Auditor of State

HON. GILBERT H. HENDREN
State Examiner

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STATE BOARD OF ACCOUNTS OF INDIANA,
STATE HOUSE, INDIANAPOLIS.

HON. SAMUEL M. RALSTON, GOVERNOR:

The success and appreciation of the special report filed for your consideration under date of July 29, 1914, have prompted me to again undertake a statement of the purposes of the public accounting law and the progress made by the State Board of Accounts.

The former report was given general circulation, and requests for copies were received from other state departments and from students of economics in this and other states. We were favored with many words of commendation of the report. All of which is very gratifying to the officials of the board, and is especially significant as indicating the practicability and effectiveness of our law.

The public accounting law of Indiana is unanimously endorsed, and we are convinced is the best and most economical accounting law of any state in the Union. Practically all of the opposition that exists to the State Board of Accounts and any adverse criticism of the law are traceable to some interference by the board with questionable transactions of officials, or with deals and combinations of unscrupulous persons to prevent honest and fair competition.

The public accounting law is the result of a popular demand in corporate business for a greater insight into the details of the company's affairs. In former years the officials, and especially the stockholders, were satisfied with a fair return on their investment and no questions were asked. In this advanced age of combinations and consolidation of capital such is not the case. No matter how big the dividend, the stockholder demands to know why it was not larger, and what constitutes the heretofore ambiguous item of "expense;" or he may feel that the dividend is greater than justified by the volume of the business. It may be that he thinks the officials are fooling themselves, and the large dividend is not justified. He may feel that sooner or later there will be a discovery, when his stock may become impaired or he may be called upon to return in the form of an assessment dividends not earned. He has, or thinks he has, ideas by which the expense can be reduced, and he demands of his officials detailed reports covering every item of cost of the business.

This is as it should be, and although the stockholder may have every confidence in the honesty and ability of his officers,

he is not satisfied with a report compiled by the same agents who have kept the records. Hence the demand for expert examination and analysis of the company's accounts by a third person, disinterested and competent. This demand occasioned the birth of a new profession, that of expert accountant, and experts in accountancy find their services in demand and their work appreciated.

As business men came to realize the importance of unit cost, and found that the absolute and positive condition of their commercial and industrial investment could be shown at any time by an analysis of their accounts, and the transactions of any period shown and their profit or loss determined for them, it was but natural that they should demand that similar methods be employed and similar reports made by their public officials, that they might know how and for what they were required to pay into the public treasuries a per cent. of their savings. If expert and disinterested examinations were good business in their private affairs, the same were certainly worth while in their public affairs, especially since their officers were elected for a given period, no matter how they conducted their offices, or for what they expended the funds of the taxpayers intrusted to their care and control.

The old theory that "everybody's business is nobody's business" was no longer popular, and the demand for an accounting to someone in authority by their public officials became so insistent that the commercial and industrial organizations of the state, the press, and many public officials insisted upon legislation that would provide for expert, impartial, and non-political supervision.

The heretofore careless citizen who had been too absorbed in his own affairs began to feel a new responsibility in the conduct of the public business in which he, as a taxpayer, was an interested stockholder. It was this new interest that demanded of the legislature of 1909 a supervision of all public offices. The Merchants' Association of Indianapolis, recognizing this demand, appointed a committee to draft and to present to the legislature a suitable law that would give to the taxpayer some guarantee that his taxes would be applied for his benefit. Accordingly their committee of business and professional men submitted the present accounting law to the legislature of 1909, and requested, through a friendly press, the support of all public-spirited citizens. As a result, the law as drafted by them was passed with practically no opposition.

The actual examinations of public offices and institutions, and the investigations pertaining to any official transactions had by them are generally made by our field examiners. The efficiency of this department, therefore, depends, in the main, upon the efficiency, integrity, and industry of the field examiners. In the selection of the field force I have exerted every effort to secure efficient and industrious accountants of unquestionable character.

Our field examiners are required not only to have the knowledge and ability of commercial accountants, but must be familiar with the statutes governing all public offices, and be able to correctly construe the statutes and decisions. They are kept advised as to the board's construction of statutes, and are encouraged to submit new questions arising during examinations, with their opinions, to our legal department. In this manner we have the benefit of each other's experiences, and the public official is given the results of the best and most expert thought and decisions on the proper method of handling his various problems.

It is my belief that a successful examination can only be made by a pair of examiners who are informed on the statutes governing the office examined, and who know more about the records and the accounts required to be kept than the officer examined. We find the services of examiners are especially in demand to assist in the transfer of the office and to aid and instruct the incoming official. Good citizens are elected to office from the farm, the workshop, and other honorable vocations, without any experience as accountants or knowledge of what will be required of them in the administration of their new duties. With competent examiners, we are able to assist the officer at the beginning of his term, and with annual examinations to keep him right during his tenure of office.

It is my good pleasure to report that, because of the greater experience and the increased efficiency and industry of our examiners, and the uniformity and simplicity of the records installed, I have, since the beginning of my term, been able to reduce the number of examiners from approximately one hundred to approximately fifty, and, in my judgment, our service value is now greater than ever before.

By consolidating positions and eliminating duplications, I have reduced our office force from a maximum of twenty-three in 1913 to a minimum of twelve, which is the least possible number that can efficiently and promptly handle the business of the office.

PUBLIC ACCOUNTING LAW BI-PARTISAN.

As before stated, politics and political influence had nothing to do with the sentiment responsible for the public accounting law in Indiana. If the enactment of this statute had depended upon the support of either political party, it is reasonably sure the act would not have been passed in its present effective form. *I am equally sure that the success of the law depends upon the administration of the board and the conduct of examinations without regard to political effect.*

The public accounting law provides for two deputy examiners, who shall be of different political parties. These have aided in the conduct of the office, in shaping the policy of the board, and have had charge of the settlements with public officials. The statute also provides for a bi-partisan field force of examiners, and examinations have all been made by two examiners of different political faith.

The assignment of a bi-partisan pair of examiners to a congressional district was first tried in 1914, and found to be not only practical and economical, but very popular with the examiners. No examiner is given work in his own county, but is assigned to his district outside of his county. By this arrangement he is able to be at home more, and at less expense for transportation, and the municipalities examined are saved the expense of long trips between assignments. The assignments are now made covering every office in the county examined, and only one round trip railroad fare is collected. This charge is pro-rated among all the offices examined.

Prior to and during the first year of my administration as many as five pairs of examiners were assigned during one year to examine the different offices of a single county. This was almost imperative, for the reason that only part of the examiners were qualified to examine all the offices of a city, county, and township. Necessarily, there was a great deal of duplication of work, and the various municipalities were required to pay more on account of this duplication and additional transportation.

Our force has reached the degree of efficiency that every team of examiners is now qualified to make the examinations of all the offices in a county, including the offices of the townships, cities, towns, and municipal light and water plants. This arrangement has reduced the time necessary to make the examination fully one-third, and we have found that on account of the relationship

between the offices to be examined, a more nearly uniform and complete check can be made by the same pair finishing the work of the entire county.

With the increasing efficiency of the field examiners and public officials, and the more nearly uniform system of records and accounts, the saving of time necessary to make the second and succeeding examinations, by the same pair of examiners in the various congressional districts, state offices, and institutions will be such that it will be possible to gradually further reduce the examining force to approximately forty examiners.

Of the field examiners retired from the service, some of the most efficient have been placed on the eligible list of available examiners, to fill vacancies that may occur from time to time.

EXAMINER AND HELPER NOT PRACTICAL.

It has been suggested by friends of the accounting law, with a desire to economize, but who are unfamiliar with the details of making examinations and reports, that one examiner might be in charge of our examinations with a clerk employed at a less wage to assist.

This change would, of necessity, do away with the bi-partisan feature of the law. The clerk would probably feel no responsibility for the success of the examination. The official examined, if of different political belief from that of the examiner, would be suspicious during the examination and might feel, if irregularities were found, that they were prompted by political prejudice.

The success of our examinations, and the fact that our examiners are able to make adjustments in 85 per cent. of all cases of irregularities, is due to the fact that the official examined believes, at all times that he will be impartially and fairly treated.

The proposed plan has been tried by other states and has proven unsatisfactory. It is our experience that the most successful examinations of public officials are conducted by bi-partisan examiners of equal ability, efficiency, power, and responsibility, and that less time is required to make the examinations than when conducted by an unevenly balanced team of examiners. In checking accounts one with the other as much depends upon the accuracy of the one checking as the one calling.

Examination must be thorough and complete, and kept free from politics and political influences. This can only be accom-

plished by employing examiners selected from the different political parties who are efficient and honest.

CONSOLIDATION NOT FAVORED.

It has been suggested that the State Board of Accounts might be combined with some State office, board or commission, and the expense of management reduced. We feel that the business of examination and supervision of public offices should not be subjected to other influences. *To be successful, the State Board of Accounts must be independent of any interests other than the welfare of the taxpayer.* This we feel can only be accomplished by giving all our time and thought to the 6,522 offices under our supervision. We know that the certainty of examination has been the cause of greater economy and accuracy in the public's affairs, and that the restraining effect alone, the State over, has been worth much more than the expense of the supervision.

SCOPE OF EXAMINATION.

Our attention has been repeatedly called to the general criticism of interested dealers and their friends, who believe that any advantage obtained over the public, whether honestly obtained or secured through trickery, is good business and justifiable; that we exceed the authority of the statute in our examinations; that our activities should be confined to the correctness of the accounts, a mere audit of receipts and disbursements, and a verification of extensions and additions, without investigation of the legal right of the official to make the collection or to incur the expenditure. While we have heard of their objection to the conduct of the board and its examiners, I am pleased to state that no official has ever questioned our authority or interfered in any way with the examiners in the conduct of an examination. Our interpretation of our duty is to check the accounts and verify their correctness, and to impartially investigate every official transaction, to the end that we may know that the official has followed the law, and that the taxpayer has had value received in necessities, comforts, and privileges for which he is annually required to contribute his part.

It is our belief that to accomplish this purpose the public accounting law contemplates no limit to the scope of our investigations and recommendations. Our official acts have been based on the theory

that it is our duty to do everything that, in our judgment, will aid the official and prevent waste of public funds.

To this end we have established uniform accounts in every public office in the State, and a uniform system of examinations and reports of examinations. We have instructed officials in the correct methods of transacting the business of their offices; defined their duties, and advised them as to the intent of the statutes. In this we have had the co-operation of the Attorney-General's office.

LEGAL DEPARTMENT.

Our legal department has rendered valuable services to the public officials of the State in giving them legal advice as to their official duties. Heretofore officials, other than State officials, have had no common source of information as to the proper methods of conducting their several offices, most of them followed precedent or placed their own construction upon the statutes governing their offices. Consequently, the statutes have been construed differently in different parts of the State.

This department has always held itself in readiness to advise with all the public officials of the different counties, townships, cities, and towns, or with their attorneys, about any question of law regarding the conduct of the office. In this way we have been able to secure a uniform application of the laws throughout the State that could not have been attained in any other way.

We have prepared a codification of the laws affecting township trustees and county commissioners. We have published the statutes affecting fees and salaries of all public officials. We have issued two price list guides, setting out the market prices of most everything required by the county commissioners and the trustees. We have published rules and regulations affecting public building contracts.

We now have in preparation a codification of the statutes affecting cities and towns, which will not go to press until after adjournment of the next legislature, in order that any amendments of the laws concerning cities and towns may be included therein.

From time to time officials have been instructed on specific questions. Unbusinesslike methods and practices have been ordered discontinued, and many changes inaugurated to the benefit of the public service.

It is the custom of the department to give all officials the

benefit of the experience and information acquired during examinations, and to call their attention, by circular letter, to rulings and constructions on important questions affecting their offices.

ITEMIZED CLAIMS.

One of the greatest sources of annoyance and causes of delay in making an examination of an office is the failure of the disbursing officer to require all claims filed with him to be properly itemized in detail. We find that this is the method most generally resorted to in order to work a fraud upon the municipality.

There is no reason why a claimant who has a valid claim against a municipality should not itemize it in detail, while the man who is seeking to have an illegal claim paid out of public funds most naturally endeavors to conceal its identity.

The statutes expressly require that all claims shall be itemized in detail, and we are proposing to hold an officer chargeable with all amounts paid out on claims not properly itemized, and an order to this effect was addressed to all public officials on August 26, 1915. Since that time officials generally have been more careful to follow the law, but on account of carelessness, or with the intent to conceal unreasonable or illegal allowances, some officials are still paying claims that are not properly itemized.

IMPORTANCE OF CASH BOOK.

Another source of unnecessary delay and inconvenience to our examiners in making their examinations is the failure of treasurers and comptrollers to keep their records in balance. It is not an unusual thing for some such officials to rely entirely upon our examiners to ascertain for them their correct balance, and to make no attempt to keep their records properly posted, when such balance has once been determined. The time spent by our men in reconciling the cash of a public official necessarily increases the cost of the examination, and is due entirely to the failure of the official to perform his duties. The majority of the complaints made as to the cost of examinations by this department are occasioned by such a condition of affairs.

COST ACCOUNTING SYSTEM.

Some years ago the manufacturers of this country saw the necessity for a system of accounting that would reveal to them just what their product cost to manufacture, hence the cost sys-

tem was devised, which was intended to show the cost of the product at each stage in process of manufacture, as well as completed product. The system has been revised from time to time to meet the requirements of the individual manufacturer, so that at the close of the fiscal year he may determine his profits with some degree of accuracy. Prior to the installation of the cost system, it was largely a matter of conjecture with him as to whether he had made profits during the period or had sustained losses.

Cost keeping accomplishes much if it does nothing more than to put a check on waste and its subsequent occurrence in manufacture.

Double entry system of account keeping is the only true basis upon which the accounts of a cost system should be established. A system of accounts by which records of costs are maintained parallel with charges in the financial accounts for the manufacturing materials, labor, and expense lacks completeness, and its accuracy is open to question when agreement with the financial accounts is not obligatory.

Realizing the necessity for the introduction of modern commercial practices into our public institutions, this department, in its examinations of those institutions wherein certain commodities are manufactured on State account, has gone very carefully into the matter of costs, with the result that the actual cost of the manufactured article is known to a certainty. With the assistance of the examiners of this department, records have been so prepared as to permit of the assembling of all elements of cost such as raw materials, carriage inward on purchases, various manufacturing and selling costs, including direct and indirect labor, hand tools, fixed charges embracing light, power, and heat, depreciation, rents and insurance, expenses of upkeep, travelers' expenses, etc.

To accomplish this, it was necessary to introduce records to carry out the idea of the continuous or perpetual inventory, so that the stock records would disclose at any time the amount and value of stock on hand and the quantities and value thereof used in the process of manufacture.

The results thus obtained were made possible only by the very capable services rendered by the assistants of the institution wherein the above-mentioned results have been accomplished.

The cost systems installed in such manufacturing institutions are the result of much thought and labor. A practical application was made of ideas gathered from some of the largest and best

manufacturing establishments in Indiana and other states, in which some of our State institution employees and our field examiners have had many years' of experience, together with ideas gathered and applied from authorities of national reputation on this subject.

It has been generally contended by those who have given the matter much study and consideration that a proper "budget system" could not be created for the institutions wherein certain commodities are manufactured until such institutions established departmental cost accounting systems, for the reason that the cost system furnishes the detail of expenditure for the previous years, and thus supplies the only intelligent basis upon which to determine, scientifically, how to make estimates for the ensuing year.

Therefore, a cost accounting system has been installed in our State institutions that manufacture various commodities, and a "budget system" has been prepared for said institutions for the purpose of determining in the most intelligent manner their actual needs.

This department would cease to be progressive if it made the claim that the systems referred to above are absolutely perfect, but it is claimed that great advancement has been made in cost accounting in all departments of State and municipalities, and a proper safeguard placed around the expenditure of money and a uniform and systematic method of detailing the expenditure shown.

STORE ROOM.

When it is known that the value of material and supplies passing through the store rooms of our State institutions is more than \$1,000,000.00 annually, the necessity for a system that will safeguard the receipt and distribution of same becomes evident.

The method of conducting "stores" in our various State institutions is similar to that employed by some of our largest and best manufacturing plants. The principle of buying materials upon triplicate purchase orders, numbered consecutively by the printer, is in practice in these institutions. The purpose of the triplicate being to provide a copy to the concern of whom the goods are purchased, one to the purchasing department, and one to the receiving or "stores" department. Upon the latter copy no quantities are listed, the quantities and weights being left off in order to compel the receiving clerk to count or weigh the materials

received. If he had the quantities or weights listed before him, he might be content to check in the articles as correct, whereas, in the absence of such quantities or weights he must insert in the space provided therefor the actual count or weight.

After the receiving clerk records the items received, he charges his stock accounts therewith and sends the receiving order to the accounting department, where it is checked against the invoice, and if found correct is entered for payment; if incorrect it is held, pending adjustment of claim.

Each department having use for the materials and supplies issues requisitions upon the store-keeper for its needs. These requisitions are also consecutively numbered by the printer, and are O. K.'d by the foreman or superintendent in charge of the department requesting the supplies.

At the close of the day these requisitions are assembled in such order as to permit of the most convenient manner of posting.

At the close of the month, or at any stated period after all postings are completed, the condition of the various stock accounts should reflect the actual condition of the stock. This was made possible by placing the responsibility solely upon the store-keeper by allowing him and the superintendent, only, keys to such store-room.

The superintendents of our institutions were in absolute accord with the idea of perfecting this system to the point of stopping all leaks. A number of them met at the office of the State Board of Accounts with this idea in view, and after a day's session it was the consensus of opinion that the establishment of the system herein outlined would tend to reduce all leakage to a minimum.

The condition of the stock since the installation of the above-described system is known at all times, and the issues against same are charged to the department for which the purchase was made.

In the absence of the above-stated continuous inventory system, the cost of the various articles manufactured in some of our institutions was largely a matter of guess, whereas, with it the first step of the cost system later established was created.

BUDGET SYSTEM.

Under the Federal Constitution, the President is made responsible to the electorate for the executive departments. It was the opinion of President Taft, set forth in a special message to Con-

gress, that the President had the power to prepare and submit a budget to Congress, but without constitutional change or legislation his recommendations might receive no consideration. This was the first time that any responsible officer of the national government had advocated the "budget idea." About this time the late Senator Aldrich stated that if the government were managed on a sound business basis, similar to large private corporations, it would effect a saving of \$300,000,000.00 a year.

Recently, Mr. Hughes, in his tour of the western states, advocated the budget system for national expenditures, and to the pleasure of the friends of the budget idea made this subject interesting.

President Wilson is on record as having always favored the budget idea in public offices. With President Wilson's advocacy of a budget system; with Secretary McAdoo's reported determination to work for the introduction of the budget; with the chairman of the appropriation committee outspoken for the budget idea, it is confidently expected that something will be done by the next Congress to amend the laws of the federal government and change the procedure of Congress, whereby the voting of money will rest on a plane of open-handed square dealing.

In thirty-eight countries of the old world the budget idea has already been incorporated and made a part of the statutory law.

At the time the constitution of this State was adopted there was little the people wanted or that the State government needed to do. The needs of the people could largely be attended to by the local communities. But the demand on the government for service grew. Increased service meant increased cost of government; increased cost of government meant increased revenues; increased revenues meant increased burdens of taxation. These things compelled attention as to the development of means of control for making the government responsible for the manner in which it used this trust estate. It was this conception of trusteeship and the pressure of economic necessity that brought home to officers their strict accountability and caused the people to demand efficiency and economy in the management of their affairs.

For more than half a century there has been a growing feeling of discontent, not at the impairment of our liberties, which would cause the people to rise in revolution, but at the waste of our great and incomparable resources; at inability to enforce official responsibility; at the irresponsiveness of the government to the will of the people; at the "dark chamber" performances of standing com-

mittees operated by the back door route commonly called "invisible government".

The "budget system" means that there must be estimates of needs, and there must be estimates of resources that may be available to meet such needs.

The "budget system" is a cure for "invisible" government. It means direct executive supervision; it means a careful expenditure of the people's money; it means strict accountability; it means publicity, and it means administrative preparedness.

The lack of a budget system means a lack of administrative planning, and necessarily means a big waste of public resources.

Under the "budget system" the estimates of needs must be made by persons who are familiar with the requirements of each kind of work to be done, or each service to be rendered, including capital requirements as well as maintenance and operating requirements. The estimates of financial resources must be made by persons who are familiar with present financial conditions; who must be able to forecast probable revenues derivable under existing laws, having in mind present and proposed financial policies. They must have the ability to forecast probable surpluses and deficits at the beginning of the period to be financed, and of the probable surpluses and deficits at the end.

In many states of our Union the executive branch has been so far carved into independent jurisdictions that the governor cannot obtain the information or co-operation required to make an executive budget effective. Under the liberal provisions of the public accounting law of Indiana, providing for the adoption and installation of complete forms, records, and accounts for the proper conservation of all public expenditures, the State Board of Accounts is intrusted with the necessary authority, and has prepared a complete "budget system" for state offices, institutions, boards, bureaus, and commissions, county, city, town, and township offices, all of which have been distributed to the proper officials.

Although but a short time has passed since the budget analysis pamphlet and the budget ordinance forms were sent out from this office, we have already received a number of letters from public officials, commending the board for its efforts and endorsing the forms furnished. The county council of one of the largest counties in the State was especially impressed with the completeness of the information furnished by these forms which had been carefully filled out and submitted to them. The chairman

made the statement in the presence of the other members that, by reason of the accurate itemized statements of the expenditures and estimates of the needs, the council would be able to cut the appropriation for the ensuing year as much as \$75,000.00.

The adoption of the "budget system," as prescribed and installed by this department in the various offices throughout the State, should mean a total saving to the taxpayers of a large sum annually, and it will materially reduce the expense of examination of such offices by the State Board of Accounts.

The budget as prepared will furnish accurate information for executive recommendations, and a basis for legislative review, criticism, and final action, and it will not in any way infringe upon the constitutional prerogatives of the members of the General Assembly.

PRICE LIST GUIDE.

One of the most frequently practiced frauds upon the township and county has been in the sale of supplies at exorbitant prices. The methods employed to corrupt public officials have been varied and interesting.

I regret to say that the practice of bribery in some form or other had become so common in this class of business that fair competition had been destroyed, and some reputable firms had felt compelled to resort to illegal methods or discontinue business.

It was our judgment that the greater part of the officials who were parties to such frauds became such at the solicitation of the corrupt agent who promised that the bills would be so made out that detection of the fraud would be made impossible. It is gratifying to report that when we have been able to establish such fraud we have had but little trouble in recovering the amount of the graft from the agent or dealer who profited most from the unreasonable prices.

After carefully considering this condition of affairs, we concluded that it would best be remedied by the preparation and distribution of a schedule of prices of articles and commodities generally required in the conduct of county and township business.

Accordingly, the first price list guide was distributed in the spring of 1915. It was my purpose to properly inform the trustees and the county commissioners of legitimate market prices, so that they would not be deceived into buying inferior supplies at exorbitant prices from unreliable supply agents.

With this end in view, and to establish the genuineness of the prices quoted, a number of responsible firms were mentioned in the guide. I regret that my motives were not understood, and that there was some criticism of the fact that any firm's name was mentioned. There was no intention to discriminate against the local merchant.

I have always thought, other things being equal, that the home merchant was entitled to the public business of his locality.

On account of the change in prices and the requirements of the vocational educational statute, another price list guide was published and distributed in the spring of this year. No firm name was mentioned, and we feel no claim of favoritism can be made. I am pleased to state no complaint of this guide has reached this office. Neither has the selfish and dishonest supply agent, who resented our interference with his unreasonable prices and his unlawful methods, complained. He has accepted the price list guide as an additional restraint to his corrupt methods.

Naturally, from year to year more and more school supplies are needed for our schools, for the reason that the number of school children is constantly increasing. On account of vocational education, the State Board of Education has required the trustees to furnish more and different books and apparatus. The increase in the gravel road mileage, and the increase to the road fund from automobile licenses, as well as the popular demand for better roads, has increased the requirements and demands for road machinery and appliances.

Yet, by reason of the repressive effect of the price list guide and the voluntary reduction in purchases by a number of trustees, the following table will show that the purchase of school supplies and road supplies during 1915 was very much less than during 1914.

STATEMENT OF SCHOOL AND ROAD SUPPLIES PURCHASED
BY TOWNSHIP TRUSTEES IN 1914 AND 1915.

| | |
|--|--------------|
| Road supplies purchased in 1914..... | \$358,926.02 |
| Road supplies purchased in 1915..... | 260,077.03 |
| | <hr/> |
| Decrease in 1915..... | \$98,848.99 |
| School supplies purchased in 1914..... | \$515,188.19 |
| School supplies purchased in 1915..... | 344,889.94 |
| | <hr/> |
| Decrease in 1915..... | 170,298.25 |
| Total decrease..... | \$269,147.24 |

More than \$40,000.00 of this decrease was in fifteen townships. In these townships our examiners had located all sorts and kinds of graft, and there were several recoveries and prosecutions as a result of their examinations.

There were \$62,755.69 of charges against ex-trustees in our examinations made in 1915 of the township business of 1914. A large per cent. of these charges have been settled and the cash recovered for the benefit of the taxpayers of the townships. The remainder uncollected is still pending and in process of collection.

EXTRAVAGANCE IN PURCHASE OF TEXT AND REFERENCE BOOKS.

Our field examiners have found in the course of their investigations that there has been a surprising amount of extravagance in the purchase of supplementary text books and reference books; that thousands of dollars have been paid out for text and reference books that were not needed by the corporations, and that have but little merit. The same is also true with reference to maps and charts.

A popular method among supply dealers was to appoint township trustees their agents and allow such trustees a commission on all goods purchased for their township from such dealers. The result of such illegal transactions was that thousands of dollars were expended for useless supplies, and in many instances books, blanks, ink, pens, pencils, chalk, erasers, maps, charts, and other school supplies were purchased in such enormous quantities that it would be impossible to use the supply in years.

One trustee, after having purchased for one dollar each several hundred copies of a small civil government that should have cost not more than twenty-five cents per copy, with a large number of these on hand in his office, bought more than one hundred more "because the old ones did not contain the Governor's picture and the new ones did."

One supply dealer or agent secured without cost a large number of agricultural and other government reports and sold them to township trustees of the State.

Another agent secured a large number of old charts of various kinds that were out of date years ago. These were absolutely without value for any purpose, yet this supply man found trustees who bought them at a price in excess of the price originally placed upon them by the publishers.

In order to stop this crookedness, for it was nothing less, the State Board of Education, after a conference with the State Board of Accounts, adopted rules governing the purchase of the above-mentioned articles by school officials. It will now be necessary under that ruling for the official to have the written consent of the county superintendent of schools of his county before material or supplies of this kind can be bought, and these supplies must be had at prices not in excess of prices named in lists furnished by the State Board of Education. We propose to hold a trustee chargeable with any amount paid out contrary to these rules.

PUBLIC BUILDING CONTRACTS.

From special examinations of this department, collusion between the architect and contractor and dealer in material and officials have been so common that we are forced to believe that in the past it has been the rule rather than the exception. In a great many public undertakings requiring the services of an architect and contractor there has been some sort of a combination to favor some particular material or process. Large sums have been recovered on account of these combinations between the architects and public officials and contractors. The largest single amount recovered on one job from the contractor and the agent furnishing material was more than \$16,000.00. This sum and many other recoveries, ranging from \$1,000.00 to \$8,000.00, from officials and contractors, were made as a result of special examinations based on information not disclosed by the records, which was not and could not have been discovered in a mere audit of the accounts.

We believe it is the duty of the State Board of Accounts to determine whether the laws of the State are complied with in the letting and carrying out of each public contract, as well as to prescribe the methods of accounting, and to determine the accuracy of the accounts in connection therewith.

Specifications for any school building should be so worded as to make plain to the bidders that the successful bidder will be required to guarantee in his written contract that any material, supplies or sanitary apparatus or systems which are furnished, constructed, remodeled or installed in and for a school building shall be practically noiseless, free from friction, and will, in all respects, comply with the provisions of the Sanitary School House Law of Indiana.

If bidders do not wish to make this guarantee in the contract, they should refrain from bidding on the work to be let.

The purchasing of furniture and supplies and the erection of public buildings are matters which concern, in a more or less degree, every taxpayer in the municipality. These matters are strictly public undertakings, and as such taxpayers are entitled to have the law strictly complied with before the burden is placed upon them.

In one instance we found that the firm of architects employed to draw the plans for the heating and ventilating system in a public building specified in their plans that a certain kind of equipment should be installed. It developed in the course of the examination that this firm, acting under another name, was the sole agent for the kind of equipment specified, and that it was awarded the contract for the work. In this case we have the firm acting in a triple capacity—as architects or heating engineers, for which they received 5 per cent. commission; as agents for the manufacturers of the equipment specified, and as contractors. In the latter capacity they agreed to do the work to the satisfaction of the heating engineers, and to use material approved by the engineer. Needless to say, the plant cost far too much, and was never satisfactory.

Under section 3869, Burns R. S., 1914, it is provided that if there shall be any collusion of fraud of any kind or character among the bidders at the letting of any contract, that such contractor shall not be entitled to payment for any work done thereon if he were a party, either directly or indirectly, to the fraud.

In order to more effectively guard against such collusions and frauds, we have, after many conferences with the leading architects of the State, prepared rules and regulations relating to contracts governing public work that will conserve the welfare of the various municipalities of Indiana. Such rules are intended to prescribe the method of awarding of contracts, the preparation of plans and specifications for such work, and the supervision of the work, to the end that there shall be unrestricted competition. These rules were submitted to and approved by the Attorney General. They were made with the hope of assisting officers of the counties, townships, towns and cities of the State in getting greater competition in the letting of contracts for the erection of buildings, furnishing heating apparatus, ventilation, plumbing, electrical fixtures, supplies of all kinds, and in any undertaking where competitive bids are to be received. We require that a

copy of all plans and specifications for public buildings shall be filed with this department for inspection.

We believe that every honest contractor should be made to realize that the opportunity to all bidders will be free and unrestricted, and that there will be no attempt in any way to prevent legitimate competitive bidding. This department will use its best efforts to prevent any payment to a contractor for work or services performed by him if it should be able to establish that such contractor was a party to any fraud.

Architects and engineers are employed in an advisory capacity, and the public official whose duty it is to contract for and have a building constructed or other work performed cannot delegate the power vested in his office by law to an architect or engineer.

An individual may select a particular kind or make of material or fixtures to be used in a building which he may desire to erect regardless of the fact that such material or fixtures may be under the exclusive control of some one person, firm or corporation, while a public official must follow the rules laid down by the law and prepare his plans and specifications so as to secure competitive bids at the letting of the contracts.

A public official is acting for the taxpayers of a prescribed district which he has been chosen to represent, and he has no authority except that which is vested in his office by law.

One of the main objects to be accomplished from our point of view is to have the specifications so worded that manufacturers of several different materials or manufactured articles will figure with the bidders on furnishing their particular make of material or supplies, and being placed in competition with other manufacturers of similar articles, will, of necessity, make their lowest price, thus giving the municipality the advantage of any reduction in price caused by such competition.

With this end in view, architects and engineers in making their plans and specifications should so treat each individual case as to reduce any possible favoritism to the minimum, thus complying with the spirit of the law.

GRAFT IN FURNACES.

Our department has made extensive investigations, and a great deal of time has been spent in locating, and, we believe to a large degree preventing, imposition on public officials whose duty it is to purchase furnaces for school buildings.

Specifications for these furnaces usually call for furnaces weighing either 5,000 or 5,500 pounds. We suspected from evidence of combinations that but few furnaces weighed the number of pounds required by the specifications. We have never heard of a furnace being weighed by any one before it was installed. Accordingly, I sent examiners to a factory in Illinois that seemed to control the sale of a large part of the furnaces for school building business in Indiana, for the purpose of finding the actual weight of the various furnaces manufactured by them. The manager of this company positively refused to give our examiners the weight of their furnaces; the reason assigned was that he must protect his Indiana agents. Our next step was to have a furnace removed and weighed in the presence of a number of witnesses. The specifications under which this furnace had been installed called for a furnace weighing 5,000 pounds. This furnace when weighed by an expert engineer for our department was found to weigh but 4,600 pounds. In that township building there were four furnaces of that make and number, making a total shortage of 1,600 pounds.

The same make of furnace bearing the same number under specifications calling for a furnace weighing 5,500 pounds had been installed in another county. There were three of these. A total shortage of 2,700 pounds. The agent who sold these furnaces is now doing business in another State.

HEATING AND VENTILATION OF PUBLIC SCHOOL BUILDINGS.

In the matter of heating and ventilation of public school buildings a diversity of opinion has existed for several years regarding the relative merits of the various systems and their compliance with the Sanitary School House Law. The system of heating and ventilation that will meet the requirements of the law, best conserve the public funds, and encourage legitimate competition is the object sought by this department in the interest of the taxpayers.

The controversy between competitive manufacturers of heating and ventilating systems and between contractors is renewed practically every time bids are received by township trustees and school boards, and frequently results in the elimination of meritorious systems of heating and ventilation, on the theory that such systems do not comply with the Sanitary School House Law.

This practice restricts competition, fosters monopoly, and results in contracts being awarded on bids that are not the lowest submitted.

It would be difficult to estimate the loss sustained by the taxpayers of the State through this corrupt practice which, in many instances, embraced collusion, conspiracy, bribery, and extortion.

Arguments made by manufacturers and contractors were such as to confuse officials who were not experienced in heating and ventilating, and contracts were secured at exorbitant prices through gross misrepresentation.

We are informed that State Examiners of other states claim that the heating and ventilating of schools and other public buildings present the most difficult problem with which they have had to deal in trying to eliminate graft.

Public officials, before contracting for the construction of any heating and ventilating system to be let upon competitive bids, should employ a competent heating and ventilating engineer to prepare plans and specifications for the same.

It is not our purpose to encroach upon any official's duty, but to help officials to comply with the law, to keep their accounts accurate, and to assist them and the taxpayers of the different municipalities in obtaining value received for the money expended. We believe the laws are ample to protect the public, and if complied with in all contracts for public work will give everybody a square deal.

HIGHWAYS.

During the last decade millions of dollars have been spent for highways in Indiana.

The statute requires the board of county commissioners, if it be their judgment that the county surveyor is competent, to direct him to have charge of all surveying and civil engineering work in the county, including plans and specifications for bridges, turnpikes, roads, ditches, drains, levees, and all other surveying and engineering work in the county. The right of the county commissioners to question the competency and to impeach the qualifications of the county surveyor becomes a matter of keen personality, and is only exercised in rare cases.

It is known, without a question, that some counties of the State have elected men to the office of surveyor that are deficient in their training as civil engineers, and who are without the technical knowledge necessary for the preparation of proper plans

and specifications for public improvements. As a consequence of the inferiority of such county surveyors, the counties suffer in a ratio to their lack of competency.

There is one certain cure for such a condition, and it is that only competent as well as honest men be elected to the office of county surveyor. How the standard of competency should be fixed is a problem yet to be solved by the legislature, but it should be fixed and such surveyor should be properly compensated for efficient work.

Incompetency and its resultant effects alone are not responsible for all the objectionable conditions that the State Board of Accounts has located and exposed in its examinations of county surveyors. I regret to say that graft and dishonesty abound in a number of counties to an alarming extent. In several counties we found the surveyor had claimed and was allowed a number of per diems in one day. In another county it developed that the surveyor had paid \$1,500.00 for an automobile, and was paying for it through his expense account. His board of commissioners had allowed him \$3,000.00 automobile hire for his machine in a single year.

The opinion seems to prevail in some parts of the State that the board of county commissioners has power to make substantial and material changes in the plans and specifications for the construction of improved highways under the gravel road law after the bids have been received and the contract let therefor. It is our opinion that the board does not have such power. The board of commissioners has broad powers when dealing with county property and in attending to county affairs, but the board in performing duties under the gravel road law is not dealing with county property, and does not act for the county, but acts as agent only for the taxing district which is co-extensive with the township.

Its powers and duties as such agent are prescribed by the statute. In carrying the law into effect, the board cannot exceed the powers with which it has been invested. The statute gives the board no power to make material changes in the plans. On the other hand, section 7733 Burns' requires the road to be "completed according to the plans, plats, profiles, and contract under which such improvement was let," and requires that the quantity and quality of material used in making the improvement shall be the quantity and quality named in the specifications, and section 7730 Burns' makes the superintendent and the engineer liable to

the township on their bonds "for failure to cause said road or roads to be built and constructed according to the plans, profile, and specifications under which the contract to construct the same was let".

The several sections of the statute in each case requires the work to be done in accordance with the plans and specifications upon which the bids were received, and in no case does the law mention plans and specifications as modified by the board.

The law requires that profile, plans, and specifications for the construction of an improved county highway shall be full and complete in every detail, showing the exact grade, including all bridges and culverts, size and kind of same, the width, depth, and exact description of material to be used for paving before bids are received or contract awarded.

After the letting of the contract there is neither excuse nor law for a change in the plans and specifications as originally adopted and upon which the contract is based.

While the records of this office show that in most counties of the State the commissioners observe the statutes, we regret to say that in many counties changes have been made in plans and specifications for improved county highways, and in every such instance the cost was in excess of the contract price, while the value of the improvement was less than originally provided for. A competent authority estimates that in one county of the State contractors on rock roads within the last ten years have used at least 300,000 cubic yards of crushed stone less than that required by the specifications, and for which the taxpayers paid. The character of such work renders it practically impossible for this department to discover such frauds after the improvement has been completed and accepted by the county. If the engineer and superintendent upon such projects are competent and are diligent in the discharge of their duties, they can require the work to be performed according to plans and specifications. We are proposing to charge the engineer and superintendent with any loss occasioned by the failure of the contractor to perform the work in accordance with the plans and specifications when we are able to establish that the improvement falls short of the standard set by such plans and specifications.

COUNTY INFIRMARIES.

Our examinations have disclosed the fact that in some counties of the State the superintendents of county poor asylums have kept no record of the farm products raised and used or sold by their institutions. We found in many counties that, while the poor farm was large enough to raise sufficient produce for the inmates, thousands of dollars' worth of farm products had been purchased, and that the superintendent had sold large quantities of the products of the farm for which no account was given and no payment made into the county treasury.

There were other instances where the superintendent gave away products of the poor farm to members of the board of county commissioners, who are vested with the authority to appoint and remove the county infirmary superintendent.

This department has prescribed a complete system of accounting for county infirmaries, including forms upon which to regularly report all transactions. This, with annual examinations, is resulting in the establishment of business methods in these institutions and a large saving to the taxpayers.

COMMON SCHOOL FUND PRINCIPAL.

In an examination covering a period of eighty-eight years, in which it was necessary to examine many old files and records in the basement of the State House, it was found that there was due to the common school fund of the State on the thirtieth day of April, 1916, the sum of \$35,101.68. We have ordered that a transfer of that amount be made to the common school fund principal from the funds, and in the amounts as follows:

| | |
|--------------------------|--------------------|
| Sale of State lands..... | \$25,170.74 |
| Sale of swamp lands..... | 3,499.01 |
| Escheated estates..... | 6,431.93 |
| Total..... | <u>\$35,101.68</u> |

This sum will be included in the next apportionment of common school fund principal to the several counties of the State, to be loaned for the benefit of the State tuition fund.

This investigation also shows a balance of \$104,864.65 in the unclaimed estates fund, of which amount the sum of \$63,058.54 was paid into the State treasury prior to April 30, 1911, and when the necessary statutory action has been had the balance

remaining unclaimed will also be transferred to the common school fund principal of the State.

SCHOOL FUND LOANS.

School funds loaned throughout the State are as follows:

| | |
|--------------------------------|-----------------|
| Common School Fund | \$ 9,304,592.04 |
| Permanent Endowment Fund..... | 607,235.47 |
| Congressional School Fund..... | 2,480,620.75 |

Total.....\$12,392,448.26

Our examinations disclosed that the School Funds of the State were in a serious condition. The records in many counties showed incorrect balances. An examiner from this department visited such counties and aided in correcting the records by requiring appropriations by the county councils. One county appropriated \$12,361.47 to effect a proper balance. Last year was the first time in fifty years that all the counties had correct balances. Hundreds of loans had been made where descriptions of the land mortgaged were defective; for these new mortgages were secured. We found in many counties the interest delinquent from a few months to several years, and in some instances the delinquent interest amounted to more than the principal. To meet the semi-annual settlement of school fund interest with the Auditor of State, many counties had been compelled to advance considerable sums out of the general fund. We found loans made to imaginary borrowers on imaginary lands. In one county the auditor and treasurer both seemed to be ignorant of the condition of their school funds balances, and overloaned the school funds available more than \$75,000. In another county it was necessary to file more than one hundred suits of foreclosure on school fund mortgages, which resulted in a net loss of more than \$25,000.00 to the taxpayers. In several other counties the conditions were bad, but the loss not nearly so great.

All is now changed. Reports received January first show that all loans were solvent in 73 counties. According to estimates received, the probable total loss in the remaining 19 counties will not exceed \$23,000.00. The delinquent interest has been reduced one-half in twelve months, and will be further greatly reduced within another year.

With the good spirit of law enforcement generally prevailing among the county auditors of the State, overdue school fund

mortgage loans will soon all be reappraised and renewed, and fire policies where necessary to protect the security will have been furnished by the borrowers for the full loan period of five years.

School fund loans should be and will be as safe and sound as are farm mortgage loans made under the conservative methods of life insurance companies.

LAND DEPARTMENT.

A thorough examination of the land department resulted in the location of thousands of acres of State lands which are claimed by individuals. The title to some 6,000 acres lying along the Kankakee River is now the subject of litigation in the State courts, with the latest judgments in favor of the State. This examination also aided in perfecting the record title to hundreds of tracts of lands owned by individuals.

BOND SALES.

It is a part of the settled public policy of this State since the passage of the county and township reform laws, and under the present trend of judicial decisions with respect to the limitation of public officers, to require all bonds of municipal corporations and political subdivisions of the State to be disposed of to the highest bidder, which must not be less than par and accrued interest to date of sale. If there be no bids, there may be successive advertising in such places as will command the attention of those who desire to purchase such securities.

The power of a public official cannot be delegated to a third person. A commission cannot be charged under some other name. To do so would only be a subterfuge, and would be void. Therefore, where a commission or brokerage is found to have been paid in the sale of bonds field examiners have been instructed to make a charge against the proper official for such commission or brokerage.

FEES AND SALARIES.

There is a conflict in our statutes governing fees for certain services. There is also a difference of opinion among good lawyers as to the intent of these statutes.

The inequality of salaries paid the various officers, their deputies, clerks, and stenographers is surprising. Some officials in Indiana are making out of their offices from all sources, after paying all expenses, as much as two or three times the salary paid

the highest salaried State official, while many important officials are underpaid. The public officers of Indiana are operating under a fee and salary law enacted by the 1895 legislature. This law was based on the then existing conditions as to population and necessary service. The salaries then established, excepting in cases affected by special legislation, have remained the same.

For example, the salaries of the clerks of the circuit court are based upon the fees collected in 1895. The official is required to pay the salaries of his deputies and other assistants. In one county the fees collected in 1895 amounted to approximately \$2,400.00, and the clerk's salary was fixed at \$2,400.00. This has been the salary of such officer since that time, but the business of the office has decreased until the fees last year amounted to approximately \$1,800.00. In one of the largest counties in the State the salary of the clerk last year amounted to only 37 per cent. of the fees collected. In that county six deputies are now required to keep up the work of the office which was formerly done by three. By doing the work of one deputy, the clerk was able to save but \$1,400.00 for his own use from the salary provided.

In one of our large counties the auditor, after paying for the necessary help to properly conduct the business of the office, and devoting his time to his official duties, had remaining only \$750.00 as a net salary for himself. Similar conditions exist as to many county and municipal officers throughout the State.

The remuneration of the township trustee was fixed at \$2.00 per day when the farmer could employ farm labor at \$12.00 to \$15.00 per month. The same class of farm labor now cannot be had for less than \$25.00 per month. The duties of the trustee have greatly increased, but his per diem remains the same, except where special legislation has been had. The following illustrates the inequality of the remuneration of the trustees:

In one county the trustee in a township having a population of 14,104, sixteen school buildings, and many miles of roads and ditches, received payment for the full number of 313 working days of the year. In another township in the same county, having a population of only 2,727, seven schools, and less than one-third of the amount of business of the larger township, the trustee received the same pay as the trustee of the larger township. The same inequality exists to a greater or less degree in all parts of the State

It is the judgment of the State Board of Accounts and the field examiners that the per diem in Indiana should be abolished, and that the salaries of all officials, the number of clerks and stenographers, and the salary of each should be provided for by statute and no public officer should be allowed to retain any fee collected.

All fees should be paid into the treasury. A bill can be so framed that when enacted into law it will equalize all salaries and provide for reasonable increases and decreases in the same, based upon the increase or decrease in the responsibilities and demands upon the official.

As a basis for the salary and assistants to be allowed public officials in such a law, all offices of the same kind should be divided into ten classes, to be determined by the population of the county, township, city or town, the valuation of the property as shown on the tax duplicate, and all other affairs of the municipality which affect the service demanded of the official in the conduct of his office.

Under such a fee and salary law, if the regular business of an office increases 10 per cent., automatically such office would come under the next higher class, with a corresponding increase of salary and assistants. Likewise, if the business of the office decreased 10 per cent., automatically the office would come under the next lower class, with a corresponding decrease of salary and assistants.

The method of automatic increase and decrease in salaries through classification of offices should be based on the scientific principles of cost and office accounting, and fully embodied in the proposed statute.

In the preparation of the proposed fee and salary law men should be consulted who hold official positions that would be affected by such legislation, and conferences should also be held with taxpayers and commercial organizations throughout the State. At these conferences all political parties should be represented.

The preparation of the bill should be free from political bias, the sole object being to give the people of Indiana a fee and salary law that will be fair and equitable to the taxpayers and officials, and so graduated with automatic regulation that there will be no occasion or demand for special legislation affecting salaries.

A Concurrent Resolution was passed by the General Assembly at the sixty-seventh regular session (see Acts 1911, p. 701), directing the State Board of Accounts to submit to the regular

session of the General Assembly, 1913, facts and data that would be of value in determining and fixing just and reasonable compensation for public officials. This department complied with said resolution, and submitted a comprehensive report of 352 pages covering the year 1911. The data for this report was secured and compiled by our field examiners.

While no action was taken, this report, together with information since secured by our field examiners, will be available. This data will also be available for the use of all the members of the legislature, and I believe it will confirm the equity of every feature of a new fee and salary law along the lines herein suggested.

The enactment of such a new fee and salary law would reduce the expense of examination by the State Board of Accounts very materially.

EXPENSE OF STATE BOARD OF ACCOUNTS FROM JULY 1, 1914,
TO JUNE 30, 1916.

| ON ACCOUNT. | Year Ending June 30, 1915. | Year Ending June 30, 1916. |
|-------------------------------------|-------------------------------|-------------------------------|
| Chief Examiner's salary..... | \$ 4,000.00 | \$ 4,000.00 |
| Deputy Examiner's salaries (2)..... | 6,000.00 | 6,000.00 |
| Legal Clerk's salary..... | 2,800.00 | 2,800.00 |
| Clerical assistant's salaries..... | 16,793.85 | 15,687.00 |
| Office and traveling expense..... | 3,783.99 | 4,587.57 |
| Per diem Field Examiners..... | 145,748.00 | 132,434.00 |
| Railroad fare Field Examiners..... | 2,038.71 | 1,539.24 |
| Special expense..... | 56.75 | 40.90 |
| Printing and supplies..... | 2,799.82 | 4,076.40 |
| Total..... | \$184,021.12 | \$171,165.11 |

CHARGES RESULTING FROM EXAMINATIONS OF PUBLIC
OFFICIALS MADE DURING TWO YEARS ENDING
JUNE 30, 1916.

| | Year Ending June 30, 1915. | Year Ending June 30, 1916. |
|---|-------------------------------|-------------------------------|
| State officials and institutions..... | \$ 2,699.89 | \$ 2,119.14 |
| County officials..... | 55,881.29 | 86,511.01 |
| Township officials..... | 62,755.69 | 59,276.25 |
| Officials, civil cities and towns..... | 71,438.37 | 51,527.88 |
| Officials, school cities and towns..... | 1,339.55 | 10,258.17 |
| Total..... | \$194,114.79 | \$209,692.45 |

COLLECTIONS, RECOVERIES, CASES CERTIFIED TO THE GOVERNOR, AND CASES PENDING SETTLEMENT, ON ACCOUNT OF EXAMINATIONS MADE DURING THE TWO YEARS ENDING JUNE 30, 1916.

| | Year Ending June 30, 1915. | Year Ending June 30, 1916. |
|--|-------------------------------|-------------------------------|
| By payment during examination..... | \$54,069.91 | \$78,719.37 |
| By payment to municipality..... | 12,228.71 | 7,313.76 |
| By payment to department..... | 30,897.25 | 11,922.85 |
| By court collections..... | 2,000.00 | 2,729.68 |
| By cases certified to the Governor (pending)..... | 11,291.01 | 18,006.24 |
| By cases pending settlement by this department..... | 77,737.99 | 85,251.06 |
| By charges not sustained by the courts..... | 5,889.92 | 5,749.49 |
| Total charges..... | \$194,114.79 | \$209,692.45 |
| From which should be deducted charges not sustained by the courts | 5,889.92 | 5,749.49 |
| Total current cases..... | \$188,224.87 | \$203,942.96 |
| To which should be added collections made during the period covered by this report on cases pending settlement June 30, 1914— | | |
| By payment to municipality..... | \$7,613.49 | |
| By payment to department..... | 3,977.57 | \$2,346.83 |
| By court collections..... | 3,118.76 | 6,359.68 |
| Total collections, all cases, and claims pending settlement on account of examinations made during two years ending June 30, 1916..... | \$202,934.69 | \$212,649.47 |

The following comparative table is inserted for the purpose of showing the reduction of \$78,874.45 in the annual expense of the State Board of Accounts between the years 1914 and 1916:

EXPENSE OF DEPARTMENT.

| | June 7, 1913, to June 30, 1914. | July 1, 1914, to June 30, 1915. | July 1, 1915, to June 30, 1916. |
|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Chief Examiner..... | \$4,266.67 | \$4,000.00 | \$4,000.00 |
| Deputy Examiners..... | 6,400.00 | 6,000.00 | 6,000.00 |
| Legal Clerk..... | 2,829.88 | 2,800.00 | 2,800.00 |
| Clerical Assistants..... | 18,194.38 | 16,793.85 | 15,687.00 |
| Office and traveling expense..... | 4,407.31 | 3,783.99 | 4,587.57 |
| Per diem, Field Examiners..... | 205,420.00 | 145,748.00 | 132,434.00 |
| Railroad fare examiners..... | 3,802.10 | 2,038.71 | 1,539.24 |
| Special expense..... | 34.75 | 56.75 | 40.90 |
| Printing and supplies..... | 4,684.47 | 2,799.82 | 4,076.40 |
| Total..... | \$250,039.56 | \$184,021.12 | \$171,165.11 |

RECOVERIES, COLLECTIONS, AND IRREGULARITIES PENDING AND IN PROCESS OF SETTLEMENT, DISCLOSED BY THE STATE BOARD OF ACCOUNTS.

| | YEAR. June 7, 1913, to June 30, 1914. | YEAR. July 1, 1914, to June 30, 1915. | YEAR. July 1, 1915, to June 30, 1916. |
|---|--|--|--|
| By payment during examination, | \$65,706.19 | \$54,069.91 | \$78,719.37 |
| By payment to municipality.... | 59,964.66 | 19,842.20 | 7,313.76 |
| By payment to department..... | 20,980.93 | 34,874.82 | 14,269.68 |
| By court collections..... | 27,729.23 | 5,118.76 | 9,089.36 |
| By cases certified to Governor (Pending)..... | | 11,291.01 | 18,006.24 |
| By cases pending in process of settlement by the department. | 96,111.45 | 77,737.99 | 85,251.06 |
| Total..... | \$270,492.46 | \$202,934.69 | \$212,649.47 |

NOTE:

The tabulation for the period ending June 30, 1914, was taken from the special report published that year, and the \$96,111.45 cases pending settlement by the department contained the unsettled cases at that time, as the result of all examinations made since the organization of the department, while the cases pending for the years ending June 30, 1915, and June 30, 1916, as shown above, are the cases pending on June 30, 1916, as the result of examinations, only, made during the years ending June 30, 1915, and June 30, 1916.

Sixty per cent. of all offices were examined during the first six months of the calendar year of 1916. The expenses of the department for the last six months of 1916, and the cost of the examinations of the remaining 40 per cent. of the offices will be less than \$65,000.00.

The exact total of these expenses and the recoveries made and charges pending, as a result of these examinations, will be determined directly after January 1, 1917, and the foregoing statements made complete to December 31, 1916, for the information of the legislature and the general public.

CONCLUSION.

A study of the foregoing report we believe will result in the conviction that the State needs a department of inspection and supervision of public offices, and that such a department should not be limited in its scope to a mere audit of the accounts of the office examined. We have construed the law creating this department as being broad enough to authorize us to make a direct or collateral examination and investigation into all the transactions of a public official. We have every reason to believe that the refusal of this department to confine its activities to a mere checking of the financial accounts of public offices and its insistence upon the strict observance by public officers of the duties imposed upon them by law, will meet with your approval and with the approval of the people and their representatives. Certainly such a course adds largely to the sphere of usefulness of the department to the public, and is abundantly justified by the letter and the spirit of the law.

We are confident, also, that the suggestions and help given to public officials in the purchase of supplies and materials and in the construction and repair of public buildings are within the letter as well as the spirit of the law, and that they have saved the public much money, and will be a source of saving in the future. We confidently state that, from a conservative estimate, this department, as a result of its examinations and investigations of public offices and public building contracts, aside from the actual recoveries in dollars and cents, is saving to the taxpayers of the State more than one million dollars annually. The one feature of the law operating to the greatest benefit in a financial way, and the one that is the least apparent to those who have not studied it, is its repressive effect.

The certainty of examination and detection is a greater preventive of fraud than a law providing a penalty for such a fraud, which does not provide a method for its detection.

It is our opinion that the integrity of the officials and the character of the service rendered by them are not surpassed in any other state in the Union.

Above all, we desire, in conclusion, to point to a lesson taught by conditions found in public offices throughout the State as revealed by the work of the accounting board, and that is, that the fundamental need of the times is that the voters in selecting their candidates at primary elections, should be influenced by the

competency as well as the honesty of the candidate. We are constrained to the belief that too many voters look upon the public job as something to be bestowed as a favor upon a friend or good fellow, rather than a position to be filled for public benefit. We live under a system of party government, and it ought to be possible to convince voters that in the primaries the controlling considerations should be competency as well as honesty. Not until voters at the primaries become actively alive to the truth that they should act on this criterion in the selection of public servants the same as they do in selecting help in their private enterprises, will the public secure that standard of efficiency and honesty in public life that they insist upon in their private affairs; and it is confidently hoped that those who peruse this report will find something in it to impress this truth upon them.

Respectfully submitted,

GILBERT H. HENDREN,
State Examiner.

October 2, 1916.



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